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GEORGIA STATE COLLEGE
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"The Division of Labor Among Budget, Monetary, and Debt Management Policies"

Mr. Stein discusses the interrelations of budget, monetary, and debt management, designating that to some degree they may be substituted for each other to achieve a desired level of demand for goods and services. Generally, however, a combination or "mix" of the three is desirable; and, from a range of possible combinations, and considering other effects, a choice must be made.

Mr. Stein is director of research, Committee for Economic Development. His article is adapted from a paper delivered at the annual meeting of the Southern Economic Association in Jacksonville, Florida, November 1959. The views expressed are his own and not necessarily those of the Committee for Economic Development.

GLENN SISK

"Atlanta Business Firms That Lived"

The number of Atlanta firms that were established before 1883 and lived at least seventy-five years suggests that certain management and marketing principles, adopted and followed many years ago, were sound practices — such as, for example, the need for able leadership, fair dealings, incentives of employee-ownership, active community participation, and accent on service.

Dr. Sisk is professor of history, Department of Social Science, Georgia Institute of Technology.

CRAWFORD H. GREENEWALT

"The Management Forum: Men Make Organizations"

Mr. Greenewalt attributes the long successful operation of the Du Pont Company in large part to two major policies of the company: (1) the encouragement of all personnel to develop to their full capacity, and (2) the provision of incentives for achievement, with special adherence to the owner-management concept. The author, in accentuating the importance of the *individual* in the organization, stresses particularly the "uncommon" man—the creative genius, the original thinker, the rugged individualist.

Mr. Greenewalt is president of the E. I. Du Pont de Nemours & Company. His article reflects the policies of the Du Pont Company as described by the author in 1958 McKinsey Foundation Lectures, Number 1, 2, and 3.

DONALD F. MULVIHILL

"The Marketing Center: Groping for a Marketing Theory"

Dr. Mulvihill recognizes that as a first step toward the development of a concise marketing theory there is need for a summary of present thinking on the subject, and its evaluation. His article concerns steps that have been taken toward the development of a "marketing theory," literature on the subject, and the current thinking of marketing leaders.

Dr. Mulvihill is professor of marketing, School of Commerce and Business Administration, University of Alabama. His article is adapted from a talk given at the Southern Economic Association in November 1959 at Jacksonville, Fla.

In a forthcoming issue the Atlanta Economic Review will publish a third article on problems and programs of medical care.

THE ATLANTA ECONOMIC REVIEW

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The Division of Labor Among

BUDGET, MONETARY, AND DEBT MANAGEMENT POLICIES

the proper "mix" for achieving the desired level of demand

Herbert Stein

It is an important objective of national policy that aggregate monetary demand for goods and services behave in a certain way. Budget, monetary, and debt management as policy instruments are in some degree substitutes for each other in achieving this desired level of demand. Their effects are in part similar and in part different. The determination of the proper standards for the use of each depends upon the standards by which each of the others is to be guided.

The phrase "division of labor" may not accurately describe the relations among these three variables. The term more commonly used is "mix." People ask what is the right "mix" of these three policies. But the principle of division among fiscal, monetary and debt policy appears to be the best means of achieving the right combination. This operates on Senator Douglas' principle that good fences make good neighbors.

A typical example involving this division would be found in the situation where the same effect upon aggregate demand that is produced by Budget Policy A combined with Monetary Policy B would be produced by a somewhat more expansive budget policy and a somewhat more restrictive monetary policy. Is this substitution possible without limits and in all conditions? For example, is there always, for any budget policy we might specify, some corresponding monetary policy that will give the desired aggregate demand effects, or is this true only within limits? The first problem then is to determine the range of combinations among which we might be indifferent in respect to effects on aggregate demand. The second problem is to choose from among the combinations within this range. This must be done in terms of other effects and requires an estimation and valuation of the other effects.

POLICY TERM DEFINITIONS

The current concern with the division of labor or the mix is a relatively recent revival. In the 1920's the problem was not alive because monetary policy, debt management, and fiscal policy each seemed to have its own function and criteria independent of the others. Monetary policy was for stabilization or for meeting the needs of commerce. Debt management was a matter of prudent housekeeping, to keep down costs and be prepared to meet emergencies. Budget policy was governed by moral principles and an interest in saving. This is not to belittle these views attributed to the 1920's. It is only suggested that the problem of the relationship among the three variables was not active because it seemed to be solved.

In the 1930's the problem disappeared entirely. Economic thinking recognized only one instrument—fiscal policy, and one objective—full employment. This of course left no room for concern with the division of labor.

When monetary policy and debt management reentered the picture after World War II the result was hash. The standard formulation of economic advice ran like this: "When an increase in aggregate demand is needed (or is about to be needed) reduce taxes relative to expenditures, increase the money supply and shorten the debt. To decrease aggregate demand do the opposite." The question of the relation among the three instruments of policy was bound to arise as soon as an effort was made to spell out the meaning of this proposition. But it was a long time coming.

In 1947 when the Committee for Economic Development was working out the program called the stabilizing budget policy, it was clear that it was defining a division of labor between fiscal and monetary policy. In simplest terms the Committee was assigning a specific and limited role to fiscal policy and a residual role to monetary policy. Yet for many years the recommendations were not understood by economists who overlooked their monetary aspects. Just a few years ago

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Note: Mr. Stein is director of research, Committee for Economic Development.

when the Committee suggested that it might be desirable simultaneously to cut taxes and tighten monetary policy, some people thought CED was obviously illogical and inconsistent. Today, such a recommendation might be considered unwise in specific situations but not prima facie inconsistent.

In this discussion budget policy, monetary policy, and debt management will have these meanings: budget policy—policy with respect to the size of the Federal surplus or deficit; monetary policy—policy with respect to the size of the money supply; and debt management —policy with respect to the composition of the net Federal debt held outside the Government and the Federal Reserve Banks. These are not precise and unique definitions. The surplus, the debt, and the money supply all still require definition. The problem is particularly acute in the case of the surplus, where existing conventional definitions diverge rather widely from concepts useful for economic analysis. In much economic analysis there is a tendency to act as if the budget surplus were the excess of Government withdrawals from private incomes over Government additions to private incomes, whereas neither the conventional administrative budget nor the cash budget conforms to this criterion. The problem in the definition of the budget carries over to the definition of the debt, for the net change in the debt is equal to the budget surplus. However, the definitional problems may be pursued as they arise in subsequent discussion.

The chief value in these definitions, loose as they are, is that they permit a distinction to be made between debt management on the one hand and budget policy or monetary policy on the other. A look at postwar writing that purports to be about debt management will show that much of it is actually about budget policy—that is, about the total size of the debt; or about monetary policy—that is, about the amount of Federal debt the Federal Reserve Banks should hold. This leads to confusion and failure to come to grips with the question of the composition of the debt held by the public.

Attention is called to the fact that the line suggested here between monetary policy and debt management does not correspond to the line between what the Federal Reserve does and what the Treasury does.

Now some of the outstanding questions of the relation between budget policy and monetary policy may be reviewed and the role of debt management discussed briefly.

BUDGET AND MONETARY POLICY

One of the common positions on the relation between budget policy and monetary policy is that some budget surplus in periods of prosperity is essential to the execution of an adequately restrictive monetary policy. This position is typically found in what would ordinarily be classed as "conservative" writing, but its meaning is not clear to this writer.

The proposition may simply mean that if there is a surplus there is no need for as restrictive a monetary policy as there would be if we have no surplus. Assume that this is correct. But it only says that there is a problem of choice here. It does not say that there cannot be an adequately restrictive monetary policy without a surplus or even suggest why there should be a surplus.

The proposition may mean that interest rates will be higher if there is no budget surplus than if there is a surplus. Again, this is probably correct and is a factor that should be considered in deciding whether or not to have a surplus. There is, however, nothing in this to suggest that there can't be a sufficiently restrictive monetary policy to compensate for the absence of the surplus, if the Government is willing to pay higher interest rates.

If this proposition is significant it asserts the existence of a limit to the substitutability of monetary policy for budget policy. This limit is thought to be found in the market for government securities.

Government Securities

At this point all remarks in this paper must be qualified with this comment. Anyone who has neither worked in downtown Manhattan nor been linked to it by teletype must speak with great reserve about the government securities market. There is a mystique here that outsiders do not understand and insiders do not deign to reveal. Outsiders can only say how it looks and hope that the insiders will explain better.

The problem seems to be this: Each year a very large volume of government securities comes due and must be refunded. Suppose this annual amount is $70 billion. In prosperous times when private credit demands are high, the holders of the maturing Federal debt will not want to take up all the new Federal securities that are offered in exchange. If they only want to take up $67 billion, this leaves $3 billion of maturities to be refinanced. If there is no surplus with which to pay off this $3 billion the Federal Reserve will have to buy it, adding more to the reserves of the banking system than would be consistent with economic stability.

It cannot be said that such a situation could not exist. But why should it? Of course, the interest rates the Treasury will have to offer to refinance its debt will be higher in prosperity than in recession. But if there is some interest rate at which the Treasury can refinance $67 billion of debt, how does it come about that there is no interest rate at which it can refinance $70 billion? Note that the difference between these two numbers must be small relative to their size, because the amount of surplus anyone has in mind is always small relative to the annual refundings.

Some aspects of the problem can be seen by comparing two situations. In each case the economy is perfectly stable, the Federal budget is in continuous balance, the amount of annual Federal refunding is large and constant, interest rates are constant, everyone knows in advance what securities the Treasury will issue and at what terms, and the Treasury knows in advance what market interest rates will be. The difference between the two situations is in the intensity of private investment demand and in the resulting interest rates. In one case the long term rate is three per cent and in the other six per cent. There is no reason to think that it will be impossible for the Treasury to refund its annual maturities in the six per cent case, or even more difficult than in the three per cent case.

Now it will be said that this is not the usual business prosperity case. The realistic case is one in which private investment demand is rising, interest rates are rising, the Treasury cannot foresee what future rates will be and the market cannot foresee what the Treasury will offer. In this case it may be that when the Treasury comes to the market with an exchange offering, the offering may turn out to be unattractive, or all the available funds may have been committed for other uses. This could happen in any one offering. But there is no apparent reason why it should happen persistently, or why attrition on one issue cannot be made good by larger sales the next time.

Money Market

There are a couple of marginal notes to this subject, which it is hoped the money experts will make a further effort to explain some time. What seems to cause the trouble, if any, is the rapid rise of interest rates and the resulting uncertainties that make it difficult for the Treasury to price its issues and for investors to adjust their commitments to the terms of forthcoming Treasury issues. This may, it is said, force the Federal Reserve to supply funds to assist the Treasury if no funds from budget surplus are available. If this is the situation, the greatest contribution of budget policy may be in a big swing of the balance in the budget. That is, a shift from, say, a $5 billion deficit to a $5 billion surplus may moderate the pace of the rise of interest rates and enable the Treasury to do its refinancing without the assistance of the Federal Reserve. And, if this is the case, wouldn't a swing from a $15 billion deficit to a $5 billion deficit serve as well?

On the assumption of a need for a surplus to offset the attrition on the debt, what definition of surplus is relevant for this purpose? Quite clearly it should be the consolidated surplus, including the surplus in the trust accounts. Shouldn't this go a step further and include the excess of sales over redemptions of savings bonds? And what about government purchases of financial assets, like insured mortgages, which is a way of putting funds into the financial system and may relieve the attrition of the debt?

The whole case on the limited substitutability of monetary policy for fiscal policy may be stated in different terms, more familiar to economists. Conceivably, monetary restriction might be ineffective in a condition where the demand for money is infinitely elastic, so that reduction in the supply of money only reduced the quantity of money that people wanted to hold, without affecting their behavior in any other way and without affecting interest rates. Something like this is said to have happened in the tight money period 1956-57, when monetary restriction was accompanied by an increase in velocity. But of course to make monetary policy ineffective it is not sufficient that "something like this" should happen. It is not sufficient that the demand curve for money should be somewhat elastic; it must be infinitely elastic. Otherwise it can only be said that the amount of monetary action needed to get a given result is large.

There is some prejudice against this line of reasoning. It has been said that there are no straight lines in nature, and this causes some doubt as to the existence of infinitely elastic demand curves for anything. However, for the sake of argument, even admitting the conceptual possibility of this limit to the effectiveness of monetary policy would leave the question of whether this limit lies anywhere near the operational neighborhood. On this it can only be said that the author knows of no case in which it appeared that monetary restraint, pushed as far as it could go, would not restrain or reduce aggregate demand.

The condition in which monetary restraint all goes to waste because of an exactly matching increase in velocity is the twin of the Keynesian trap. Keynes described a situation in which monetary expansion did no good because the community was willing to hold infinitely large additions to its money supply without a reduction of interest rates or other reaction. It is amusing, but not convincing, to see this argument turned around in support of the need for budget surpluses.

Stabilization Effects

It is obvious that the writer believes monetary policy and budget policy are substitutable, over the relevant range, as means of affecting aggregate demand. It would be fair to ask why, in this case, there is a need for a countercyclical budget policy, with deficits in recessions and surpluses in booms. Why not rely entirely upon monetary policy for economic stabilization? Or, conversely, why not rely entirely upon budget policy?

The answer, it is believed, lies in the unreliability of economic forecasting and in the lapse of time between action and effect that afflicts both budget and monetary policy. This may be illustrated by placing ourselves at some month in the recent recession, say

February 1958. The economy had declined below high employment levels and was still declining. There was some monetary policy that would have given us high employment in February 1958, even with a neutral budget policy of a constantly balanced budget. But the monetary policy that would do that could not have been set in motion in February 1958; it would have had to be initiated at some earlier date, probably before it was known the recession was coming. Similarly, there was some budget policy that would have given us high employment in February 1958, even if monetary policy had been passive. But this budget policy would also have had to be initiated much earlier.

As a matter of fact, given the lack of foresight, there were limits to both the amount of effective monetary policy and the amount of effective budget policy that could be brought to bear upon February 1958 without creating serious risks of inflation in the future. Since the combination of the two policies when used up to these limits did not suffice to give high employment there was no problem of substitution between them. The use of increasing doses of either monetary policy or budget policy used for stabilization purposes involves increasing risks of future destabilization. In general, the principle for choosing between additional doses of the two policies is that each instrument should be used to the point where the destabilizing risks from further doses of either are equal.

To return to the longer term problem, as distinguished from the cyclical problem, presumably there is some idea of a general, normal budget policy as defined by the size of the surplus or deficit planned to run on the average or in normal times. Corresponding to this budget policy is some monetary policy that in combination with it gives an adequate but not excessive rate of growth of monetary demand. How is a choice made among the various sizes of surplus or deficit that can thus be satisfactory from the aggregate demand point of view? What difference does the selection make?

Probably the most important consequence of this choice is its effect upon the rate of private investment.

Private Investment

The funds available for private investment consist of private saving plus the government surplus. The larger is the government surplus, the larger private investment will be, subject to several qualifications. One is that private investment will actually absorb the total saving, public plus private. Since it is assumed the monetary policy will maintain an adequate level of aggregate demand, this condition is assured. The second qualification has to do with definition of the surplus. Private investment is not equal to private saving plus the budget surplus as conventionally defined. Private investment equals private saving plus the conventional consolidated budget surplus plus net government purchase of existing assets plus certain other non-income transactions between the government and the private sector. Third, it must be assumed that a larger government surplus does not mean that private savings are smaller by an equal amount. This seems a reasonable assumption, especially in view of the evidence on the long-run stability of the rate of private saving.

Subject again to some conditions, a higher rate of private investment will mean a higher rate of economic growth. The first condition is that the surplus that permits the private investment should not be achieved by an offsetting cut in public investment. The second condition is that the surplus should not be achieved by taxes of a kind that would seriously reduce efficiency in the use of capital and labor. There is a question whether these conditions would, in fact, be met, but they undoubtedly could be met.

Submerging all these qualifications and conditions, it must still be asked whether and up to what point it is worthwhile to run a larger budget surplus and get a higher rate of growth. Here thinking meets "grandchildren" reasoning. The former President of the United States recently said that whenever he incurred any debt, personally or for the Federal Government, he was making his grandchildren support him—and he thought he should stop being supported by his grandchildren. Apparently he was referring to debt incurred for nonproductive purposes, and meant that by incurring such debt he was reducing investment, the rate of growth, and his grandchildren's income. But one can, of course, arrive at a different conclusion even while starting with the same assumptions. Why should this generation pay higher taxes in order to run a surplus to accelerate the rate of growth so that the grandchildren, who will have higher incomes anyway, can have *still* higher ones?

The issue may be stated in a more neutral fashion. Each of the millions of people in the United States is free to save if he wishes to do so. Presumably each does save up to the point that he considers worthwhile. Is there any reason to think that the aggregate saving that results from these decisions is not the right amount of savings, the amount that best balances the valuation the American people place on the present and the future? By what right or logic should people be taxed in order to generate more saving than they have indicated by their own action they want to make?

This line of thinking leads to the idea that budget policy should be neutral with respect to the total supply of savings available for private investment, but then difficulty is immediately encountered in defining what neutral means. It might be thought that an even balance of the budget would satisfy the test of neutrality. Yet this immediately raises the question of the means by which to finance investment expenditures included within the government budget, such as expenditures for dams. Is it neutral to finance such expenditures by

taxation, which means essentially that the citizens are forced to save for this purpose, or would it be more nearly neutral to finance such expenditures by public borrowing? If they were financed by borrowing, the decision to pay for them out of additional saving or to pay for them by displacing some other private investments would be made freely by individuals.

There is no intention to pursue these questions further. The only point is to indicate the nature of the conundrums encountered when trying to think about the question of the proper normal size of the budget surplus or deficit and to suggest the kinds of considerations that are believed to be relevant to a decision on this point.

MANAGEMENT OF THE DEBT

Some views on the role of debt management are implicit in what has been said above. It seems there are really three questions to answer.

First, is debt management an independent means of affecting aggregate demand differing in its mode of operation from monetary policy and likely to be able to do anything in affecting aggregate demand that monetary policy cannot do? Second, are certain patterns of debt management essential for the effective execution of monetary policy even though debt management may not make an independent contribution by itself? Third, if the answers to the foregoing questions are negative, which would indicate that debt management need not be guided by concern for aggregate demand, what are the objectives with which debt management should be concerned?

Here, expressed rather dogmatically, are some attitudes towards these three questions, attitudes which have been developed more fully elsewhere.

First, it is doubtful that debt management can do anything about aggregate demand that monetary policy cannot do. It is recognized that debt management may have certain effects upon aggregate demand. In general, these are of the character that a lengthening of the debt tends to restrict demand and a shortening of the debt tends to stimulate demand. But debt management operates essentially through its effects upon liquidity, asset values, and interest rates. That is, it operates essentially through the same mechanism as monetary policy and will be subject to the same limits, if any, as those to which monetary policy is subject.

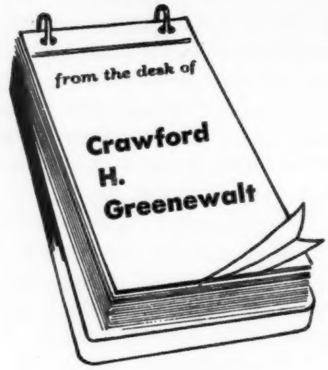
Second, the most usual proposition about the need to adapt debt management in such a way as to permit monetary policy to work is that the monetary authorities are inhibited from taking adequately restrictive measures if the Treasury is frequently in the market to refinance maturing issues. Therefore, it is said that the average maturity of the debt must be lengthened so that the Treasury will not come so frequently to the market and the Federal Reserve will have longer intervals of freedom in which to pursue a restrictive policy, if necessary. It seems that if the Treasury is continuously willing to price its new offerings in line with the factors influencing the capital markets, including in those factors the actual or anticipated actions of the Federal Reserve, it will be able to manage the debt without assistance, positive or negative, from the Federal Reserve. This may not be true at every moment of time but it should be true over any reasonable interval. While this subject has been much discussed, the author is not aware that the Treasury or the Federal Reserve has ever pointed to a period of as long as three months in which the Treasury's presence in the market kept the Federal Reserve from creating the degree of restriction it wished to create. It is not suggested that there is a positive advantage in the huge amount of refunding now done annually or that the amounts would be so large in a rational debt management program. But it is doubtful that the convenience of the Federal Reserve is a compelling argument for a major lengthening of the Federal debt.

Third, if, as it is suggested, debt management decisions need not be controlled by considerations of aggregate demand or by the convenience of the monetary authority, by what consideration should they be governed? It will be noticed that the assumption is that it is unwise to have two instruments and two agencies concerned with the same objective if the job could be done equally well by one. What are the main effects that the management of the debt has aside from its effects upon aggregate demand? One effect is upon the structure of interest rates and the supply of funds of various maturities for private investment. Debt management could be used as a kind of selective credit control to influence the relative flows of funds at long- and short-term capital markets. Apparently there is no stronger reason for the Government to engage in this kind of selective credit control than in any other kind of selective credit control and, therefore, I conclude that this is an unsatisfactory guide to debt management.

So, pretty much by default, the objective left as a guide to debt management is that of minimizing the interest burden on the Government. That is, the Treasury should borrow at short-term rates when it thinks they will be cheaper and at long-term rates when it thinks they will be cheaper. This does not mean, of course, that the Treasury should always borrow at short term when short-term rates are below long-term rates. The Treasury should borrow at long term if it thinks that long-term rates today are lower than short-term rates will be in the future. And, of course, it is definitely not recommended that monetary policy should be used to keep interest rates low in order to permit the Treasury to borrow cheaply.

(Concluded on page 23)

THE MANAGEMENT FORUM



Men Make Organizations!

The Du Pont Company has been able since its beginning in 1802 to enlist and to maintain the serious effort of a host of individuals who, according to the usual criteria of success, have been above the average in effectiveness.

There is no reason to believe that Du Pont, as an institution, has had access to personnel which differed greatly in caliber or training from those who might have associated themselves with any other institution. This being the case, it must be clear that there is something in the environment which for a century and a half has inspired average men to above-average performance.

I do not think the answer is mysterious or that the reasons are in any way unique. But it seems clear that the company's success has come about in large part through devoted allegiance to two major theses: first, the realization that an enterprise will succeed only to the extent that all individuals associated with it can be encouraged to exercise their highest talents in their own particular way; second, the provision of maximum incentives for achievement, particularly in associating the fortunes of the individual to those of the corporation through application, to the extent possible, of the concept of owner-management.

INITIATIVE NURTURED

E. I. du Pont believed, with Jefferson, that effort and achievement would exceed all expectations if the energies and imaginations of men could be freed of unnatural restrictions and restraints. Implicit in this concept is a recognition of the fact that individuals differ in approach and method, and in order to perform to best advantage they must never be fettered to approaches and methods not their own. Only then can they bring their full strength to our free society.

Maintaining the identity of the individual in a world which increasingly must turn to the group or the organization for progress is the substance of one of the great problems of the times, perhaps the greatest problem. There is nothing inherent in the organization which automatically closes the door to high individual performance. The danger, however, is very real, and the larger the organization the more assiduously it must work at the job of keeping its channels of encouragement and recognition open and flowing.

Conformity Restrained

The organization is in trouble when success causes it to be so enraptured with its accomplishments that it is moved, like Narcissus, to fashion everything to its own image. Each of us, whatever our vocation, probably has at some time passed through an unhappy period, caused by the boss' insisting that we "do it his way" instead of letting us use the methods that fell most easily to our hands. Great emphasis is placed on training, particularly in that nebulous area called executive development, but too much codification in training procedures can result in perpetuating a facsimile and in freezing rigid patterns of thought. Thorough training is obviously a necessity, but *organizations do not make men! Men make organizations!* It is what men bring with them in the way of character and adaptability and fresh ideas that enriches the organizational bloodstream and insures corporate longevity.

Not only the organization, but society itself suffers when people are allowed to sacrifice identity in the damp laundry of mediocrity. Men in organizations can be obscured, frustrated, or overlooked; injustices may

Note: Mr. Greenewalt is president of the E. I. du Pont de Nemours & Company.

The Management Forum series is arranged by Dr. James E. Chapman, professor of management and chairman of the Department of Management, School of Business Administration of Georgia State College of Business Administration.

be done, indignities suffered, promise suddenly turned to indifference. It is the better part of leadership to see that this doesn't happen, that no individual is hidden behind his neighbor and his potential dissipated.

Competent leadership will minimize these instances, although, people being people, perfection in this area comes hard. There are, unfortunately, few valid standards of direct comparison among human beings, and the strengths and weaknesses of men cannot be catalogued as though they were so much blooded dairy stock. The functions and the opportunities of individuals working within an organization obviously will differ with their capacities and special competence. Creative imagination will be expressed in varying ways and in varying proportion. Some will contribute in brilliant flashes of form; others through their steadiness, persistence, or the grueling and often overlooked grind of hard routine work. The important thing to the organization is that each individual be given the opportunity to exploit his talents to the fullest and in the way best suited to his personality.

Jefferson's famous dictum on government could well be transplanted to this area of human relations. Conform as little as is necessary for good manners, good relationships, and the highest use of individual talent. Conformity in behavior is a human necessity; conformity in patterns of thought a human danger. Unfortunately, in modern times we have come to confuse the two. There is a strong body of opinion that assumes that the conformist is the boy who gets ahead. School boys are graded on their ability to "cooperate" with the group. New ideas are disturbing to minds who prefer the meandering stream of past practice and habit.

THE EXECUTIVE AT WORK

The only common characteristics readily apparent in the thirty-four members of Du Pont's top management group are that they are all very able men and all in their own way rugged individualists. Beyond that, the differences between them are almost bewildering in their variety. No two of them will approach a particular problem in quite the same way, and no one of them could do his job as well if he were required to do it according to some preconceived and generalized executive pattern.

He Promotes Individualism

This decentralized organization requires much forbearance on the part of the nine Executive Committee members. A man who has reached that committee after high performance as a general manager may often chafe at the way some present general manager does his job, for it is only human to think highly of one's own method, and it requires Christian tolerance to reach the understanding required to endorse methods and approaches that are not one's own. But it is the result that counts, and there are many ways in which a good job can be done — as many ways, in fact, as there are men to whom the task is given.

He Delegates Authority

The delegation of authority at the upper levels of our management group — by the Executive Committee to the eleven general managers and fourteen directors of staff departments — does not stop there. At each organizational level, sufficient authority is delegated to enable the individual concerned to discharge adequately the responsibilities associated with his particular post. The emphasis has been placed here on management levels only because it is the philosophy and procedure at the top that encourages, by example, effective decentralization at successively lower levels.

He Retains Responsibility

In delegating authority, management is placed in a paradoxical position. The consignment of authority in no way relieves management of its responsibility. In our company, even though the Executive Committee may delegate to a general manager full authority for conducting the affairs of his department, and while he is clearly responsible to that committee for his department's performance, the Executive Committee is equally responsible to the Board of Directors for that performance. The situation can be likened to the magic pitcher in the fairy tale in which, no matter how much water was poured out, the level remaining was the same.

The difference between good management and bad may be said to depend on how we deal with the matter of shared responsibility. If a manager interprets his over-all responsibility as requiring him to stand with his hand eternally on his subordinate's shoulder, he is a poor manager and his subordinate cannot possibly do his job well. The alternative, of course, is to give the subordinate every opportunity to do the job in his own way, with whatever general guidance is necessary. If he fails, one must admit to a bad initial choice and look for a better replacement. Forbearance, though an essential management attribute, is useless if the courage is lacking to be tough-minded in recognizing the man that fails to click.

He Selects Competent Personnel

The question now arises as to how one decides that a particular individual is to fill any particular one of the important executive posts. The problem of filling responsible positions with competent candidates is one of the most important management functions. In our company, some thirty management positions in the levels above plant manager must be filled each year. When all supervisory levels are considered, someone has calculated that there is a promotion somewhere in the company every ten working minutes. Obviously,

intelligent selection is a critical matter. We have no special techniques in this area and have done very little with the methods of testing, which are often pointed to as the mass production unit of human affairs. We do believe in frequent and thorough appraisals.

The bonus plan (discussed later) provides for an annual evaluation of many in management positions who have the potential to rise. These appraisals, made by the immediate supervisors, locate men of high potential at all ages and all levels of responsibility. By providing for as much movement as possible within the company, we expose people to a variety of judgments.

The final answer, however, lies in that elusive personal characteristic called judgment. One often sees a list of those qualities of mind and spirit which are said to characterize executive talent. The result is really nothing more than a recital of virtues sounding rather like the McGuffey Readers. The difficulty is that we have seen men who have all of these characteristics but who would never make a good executive. Other men might have a relatively poorer score in certain categories but would, in their own way, be among the best. People cannot be classified in neat little pigeonholes.

Recognizing Executive Talent

While executive ability cannot be catalogued or measured, it can almost invariably be recognized. I cannot say what there is about extraordinary ability that projects itself so unmistakably, but somehow it does, transcending any personal differences and defying all preconceptions. Although the Executive Committee or Board may violently disagree over some particular virtue, when it comes to an over-all judgment of a man and his suitability for an important management post, it is a very rare circumstance when the choice is not unanimous.

INCENTIVES

In the various fields, intangible incentives have been developed over the years, each more or less characteristic of its own activity. In the academic world, professional and personal prestige have a certain magnetism. Politics affords an opportunity for public service and public attention. The arts and the theater have the goal of fame, applause, and the limelight. In pure science there is the distinction which goes with its highest awards, such as the Nobel Prize; in the armed services, incentive is based on rank and perquisites; and even the churches have their hierarchies and symbolic tokens of advancement.

In business, too, there must be incentives. Management, with the prime responsibility of filling its own shoes, needs above anything else men willing to explore the *limit* of their capabilities, and it must provide whatever inducements are necessary to make them do so. The question is, what kinds of inducements?

A Favorable Organizational Environment

Before considering any individual incentive program, there must be a favorable organizational environment—an environment reflecting a high quality of leadership and providing an atmosphere in which an individual is assured of recognition, opportunity, fair treatment, and appropriate rewards. A true concern for the rights and privileges of people is as essential to a healthy organizational climate as it is to pleasant social intercourse among individuals. Corporate good manners requires of management a sincerity transcending the superficial joviality which sometimes passes for cordial human relations. A salutary environment is a first principle, a basic necessity.

Nonfinancial Awards

Ideally an incentive program should provide tailor-made attractions giving recognition to the particular individual. Some years ago we canvassed a small sample of our people on what nonfinancial job dividends would be most rewarding to them. The responses varied so widely that it was difficult to form any pattern. The opportunity to travel, for example, may appeal to the man with no home ties, but will be utterly lost on the father of four small children. One of our vice presidents had a wall built to cut down the proportions of his office, which resembled, when he got through, a monastic cell. At the same time another was enlarging his quarters and installing a desk the size of a small flight deck. Both were very able men.

Financial Rewards

The financial reward has been found to be the strongest and most desirable kind of incentive. In the business field, financial gain—or what one can do with it once acquired—has consistently proved the most successful common denominator of inducement to unusual effort.

There is, though, a persistent feeling that clings to many able and useful people who, while engaging in the pursuit of success as measured by financial gain, feel a sense of subconscious guilt about it. It is doubtful, however, that a cleaner or more honest basis could be found for rewarding high performance. Are ambitions for power, efforts to win the admiration of the crowd, or mere social preening more desirable? I think not. A man may have in mind the highest purposes—to endow a hospital, or a university, or to bequeath to society a library or an art gallery or some notable park or garden, or he may have selfish or even frivolous purposes. Why he wants the money is of little importance. What is important is that he be inspired to efforts beyond those he would assay if the rainbow's end had been less alluring.

Salary Spread Between Responsibility-Levels

The maintenance of adequate compensation for individual performance is regarded as one of the most important phases of management responsibility. It is obviously to the organization's advantage to have large and eager groups of candidates seeking higher positions. To insure an adequate supply, it is necessary to provide an adequate spread in compensation between each successive level of responsibility. Quantitatively, the spread from one level to the next works out at about 25 per cent.

In our organization we recognize some sixteen steps or levels of responsibility, ranging upward from the wage earner to the president. For each step up the ladder, the game must be worth the candle to bring forth a major effort from as large a group as possible. The 25 per cent spread in gross salary is intended to accomplish that objective, and it appears to produce the desired result.

The Inspiration of Ownership

In this country, financial incentive in business developed quite naturally from the sink-or-swim nature of the entrepreneurial process. Indeed, owner-management, such as was entailed in proprietorship, remains one of the most effective forms of motivation for management devotion and the high flame of midnight oil.

Bonus Awards. Early in the century Du Pont recognized that some way should be found to preserve the strength inherent in the ownership principle. The result was a bonus plan which was adopted in 1902 and which has been in continuous operation ever since. The important features of this plan are, first, that it is based wholly on earnings and, second, that awards are made in the form of common stock.

The bonus fund in any year may not exceed 20 per cent of earnings in excess of a 6 per cent return on capital employed in the business.[1] Awards from the fund are based strictly on individual performance during the year in question. There is no guarantee that an award to an individual in a given year will be repeated in the following year, and the amount of the award need bear no relation to salary or position. Individual performance is the principal criterion. Bonus recommendations are finally approved by a Committee of the Board of Directors, no member of this Committee being eligible for a bonus award.

The result of the plan's operation at the outset was, of course, that the company's principal management people soon began to acquire a sense of participation. As their own share of the enterprise increased, the greater personal stake they began to have in the potential earnings provided the greatest possible incentive toward high performance. Over the years, it has worked out very well indeed. Management at all levels has had a keen inducement to perform well, knowing that if earnings are high, the rewards will be commensurate and that, if they are low, the amount to be distributed is correspondingly decreased. More importantly, the stake in future earnings as their bonus participation increases gives them an eye to the future as well as to the present, and a concern for corporate growth and success far beyond their tenure in office. Since bonus payments are made only when earnings exceed a fixed return on the capital employed, there is an immediate advantage also for the stockholder. The stockholders in a sense share earnings above a certain norm with the employees who produced them.

Unfortunately, in recent years the ownership feature of the plan, particularly at the higher management levels, has been virtually nullified by the very high tax rates on income. The principle is maintained by making awards partially in stock, but, because the entire bonus is taxed as income, it is difficult for the average beneficiary, even in the middle brackets, to build up any very substantial equity. Large awards are now made almost wholly in cash in order to avoid stock selling to pay taxes.

It is tragic that the vigor and vitality which owner-management lends to a business, and to the business structure generally, is being dissipated. One anecdote illustrates the point. The late Lammot du Pont was once explaining the difficulties of maintaining owner-management under the present tax system. A listener nodded in agreement, commenting that the hired manager, lacking a personal stake in the outcome, was likely to spend the company's money without exercise of due caution. "That's not the point," said Lammot. "The danger is that he'll spend it with too much caution." He was right. People will assume risks with their own funds which they would not or could not dare when they are the steward of other people's money. The owner is interested in the continuity and growth of his business; the employee on fixed salary is all too often interested in a safe, conservative performance during his working career.

Dividend Equivalents. In recent years a new plan has been installed which it is hoped will recapture to some extent the main features of owner-management. Under this plan, a portion of the normal bonus award to an individual is replaced by an undertaking by the company to pay, over a period of years, sums equivalent to the dividends declared on one and one-half times bonus shares which would otherwise have been awarded. The undertaking to pay dividend equivalents runs to the eighty-fifth anniversary of the individual's birth, or his death, whichever is later. He also receives a restricted stock option exchangeable on exercise for his dividend equivalents. Since the dividend equivalent

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[1]Investment in General Motors stock and earnings therefrom are both excluded in calculating the bonus fund.

contract runs for a substantial number of years, it is hoped that this device will reinstate, in part at least, the owner-management concept which has been so successful in past years.

THE "UNCOMMON MAN" AND THE ORGANIZATION

The United States stands today as the summation of individual endeavors. It is the synthesis of the efforts of many millions, past and present, striving for goals which, while differing widely, seemed to those concerned to be worth their while. To each has been given the opportunity, at whatever level his abilities indicate, to do his best. Du Pont in its executive development program has consistently widened and improved the role of the *common man,* and it operates in a great variety of useful ways. However, it is the role of the *uncommon man* in this or in any age that is unique. It is the individual of uncommon endowment with which society, as well as the organization, must selfishly be most concerned.

Try as we will, we can create no synthetic genius, no composite leader. Men are not interchangeable parts like so many pinion gears or carburetors; genius is bestowed by nature upon the individual—"imperiously," as John Adams said. Every advance of the human race—scientific, cultural, or spiritual—has originated in the mind of some individual with qualities of mind or spirit or dedication that have set him apart from his fellows. Others there are who can pick up and carry on, others who can perhaps go far beyond normal expectations. But it is the creative individual whose dreams awaken him in the night and preoccupy his mind by day that is the indispensable man.

With all our technical advances, dreams are not yet machine made and cannot be produced by crash programs. They cannot be stockpiled, prefabricated, or improvised. They remain one of the most characteristic symptoms of human aspiration and one of the activities which is most exclusively the province of the individual.

By dreams, of course, we mean creative genius; and the problem we face today—in science, in business, in education, and in every other phase of human activity—is to develop and preserve, within our institutions, this priceless human quality.

Original thinking has never found a ready-made acceptance, however. Back in 1902, a very wise administrator in our company recognized the need of encouraging the timid and diffident and wrote into the first bonus plan a provision which perhaps anticipated this rejection of original thinking. It provides that, in setting awards, special consideration be given to individuals who achieved a goal "in the face of objection from within or without."

GROPING FOR A MARKETING THEORY

(Continued from page 19)

A PRINCIPLE: A fundamental, primary, or general truth on which other truths depend; . . . a fundamental doctrine, or tenet.

1. Trade between individuals and areas depends upon differences in costs; which depend on differences in natural resources, differences in skills, differences in capital accumulations, differences in the mores of people and upon the division of labor.

2. The cost of transporting goods increases with distance but at a decreasing rate, owing to terminal costs being fixed.

3. A consumer does not want to spend more than an hour reaching a place to shop. (1910)

4. Trade movement to competing centers is determined by the populations of the competing towns and the time required to reach them. Using distance to represent time, this has been expressed in the "law of retail gravitation" with its various modifications and adaptations to varying conditions including traffic congestion, parking facilities, and conditions of transport which speed up or delay movements of shoppers.

5. Consumers attach different importance to different goods (purchases) and are willing to spend more time and effort in buying some than others. Goods bought infrequently or of high unit value are called shopping goods and in the purchase of these the consumers are willing to spend considerable time.

a. Shopping goods tend to be purchased in centers having large assortments for sale and usually in centers having several stores.

6. Goods purchased frequently and which are of small unit value tend to be purchased from conveniently located sellers. Such goods are called convenience goods.

a. Convenience goods are usually more standardized than shopping goods. Hence price comparisons are of greater importance and price competition usually increases (in the absence of monopoly).

7. Goods move from one classification to another as their use increases and as the consumers become more familiar with them. Thus a high shopping good may move into the classification of a low shopping good; and a low shopping good into the class of a convenience good. (When a good is manufactured for a number of years its production and quality tend to become standardized.)

a. The needed promotion changes with changes in the classification of a good.

b. Physical distribution tends to become relatively more important and promotion less important as a good moves from high shopping to low shopping, and to convenience. (This idea is often expressed as a good moving from specialty to staple.)

8. Certain operations must be performed in the marketing process. These operations or services have been called functions. The recognition and classification of the various functions facilitates the study of marketing.

It is to be hoped that Professor Converse will continue his work along these lines and make his conclusions available in some published form.

Dr. Sisk's summary of Atlanta firms that lived more than 75 years not only will be of interest, particularly to Atlantans, but some of the very principles and policies on which these businesses based their operations are worth attention by present-day businessmen. Indeed, a number of the policies and practices are generally advocated today.

Because one characteristic has been singled out for a particular firm, it should not be inferred that the success of the firm has been due exclusively to that particular trait, or that this characteristic does not apply to other firms also.

Atlanta Business Firms That Lived

Glenn Sisk

Some thirty-three Atlanta business firms are readily identified as having lived the seventy-five years from 1883 to 1958. This is no mean record, since most of the names of 1883 business firms are strange to the Atlantans of today.

Seventy-five years ago there were flourishing businesses which are now unknown. Other firms which were struggling on side streets to gain footholds have survived.[1]

Threaded among the successful principles employed by these companies, and highlighted below, are many of today's most widely accepted business practices.

Able Leadership

The First National Bank is the Southeast's first, oldest, and largest national bank in one city.[2] It began as the Atlanta National Bank in 1865 on the present site of the Federal Reserve Bank of Atlanta, with a capital stock of $100,000. By 1877 the capital had doubled to $200,000. The American National Bank combined with the Atlanta National Bank in 1916, and the Lowry National Bank joined the Atlanta National Bank in 1924 to form the Atlanta and Lowry National Bank. The latter combined with the Fourth National Bank in 1929, creating the present First National Bank of Atlanta. Total resources on June 29, 1940 were $140,463,676.84. It has had the advantage of able leadership by, among others, Alfred Austell, Robert J. Lowry, Thomas K. Glenn, John K. Ottley, Robert F. Maddox, and more recently R. Clyde Williams, the James D. Robinsons, Sr. and Jr., and Edward D. Smith.[3]

Intellectual Resources

The Atlanta Constitution by 1895 had the largest circulation of any weekly edition on the continent. It was established in 1868 by Colonel W. A. Hemphill for the defense of the constitutional liberties of the people during the period of Reconstruction. The paper served as the organ of the Constitutional Democratic party of Georgia. Captain Evan P. Howell bought an interest in 1876, and the Howell family retained a dominant interest in the paper until it was sold to the James M. Cox interests in recent years.

Captain Howell engaged such outstanding editorial minds as Editor Henry W. Grady, Joel Chandler Harris of Uncle Remus fame, and Frank L. Stanton, poet and author of "Mighty Lak a Rose." Captain Evan P. Howell was succeeded by his son, Clark Howell.

The phenomenal growth of the weekly edition of the Constitution brought its circulation by 1895 to 156,000. It covered every state in the union, especially the southern states where it had a larger circulation than any other paper.[4]

Fair Practices

Rich's department store, founded in 1867 by Morris Rich, today is the largest store south of the Potomac River.[5] For many years it was known as M. Rich and Company, and the store has remained in the hands of descendants of Morris and his brother, Emanuel Rich.

One price to all, friendliness, sound values for the money, a proper margin of profit, and liberal exchange for rejected purchases are among the policies followed by this store.

Pioneering

The brothers Julius and Gabriel Regenstein in 1872 established Regenstein's, a modest millinery and dry goods store, at 74 Whitehall Street. Julius Regenstein is reputed to have been the first merchant in the South to employ a woman clerk in his store.[6] By 1879 the store was described as "the greatest shopping bazaar in the city. Nearly fifty clerks are employed and are kept busy from morning till night."[7]

Note: Dr. Sisk is professor of history, Department of Social Science, Georgia Institute of Technology.

1. *Proof,* Vol. 2, No. 7 (July, 1928), p. 2.
2. *Diamond Jubilee, First National Bank, Atlanta, 1865-1940,* p. 1 ff.
3. *Proof, op. cit.,* No. 4 (December, 1927), p. 2.
4. *The Atlanta Exposition and South Illustrated* (Chicago, Illinois, 1895), p. 104.
5. *Manufacturing and Mercantile Resources of Atlanta, Georgia, 1883,* p. 290; *The Guide to Atlanta, 1878-1879,* p. 57; *Proof, op. cit.,* No. 3 (November, 1927), p. 2; F. Garrett, *Atlanta and Environs* (3 cols.; New York, 1954), I, 764-765.
6. Garrett, *op. cit.,* pp. 886-888.
7. *The Guide to Atlanta, 1878-1879,* p. 65.

Installment Selling

The Rhodes Furniture Stores, founded by A. G. Rhodes in 1875, were the originators of the installment plan of selling furniture. Mr. Rhodes, as far back as 1875, realized the possibilities for a business that could sell to the man of moderate means on terms he could afford. At one time there were forty-eight Rhodes stores in three chains throughout the Southeast.[8]

Transportation-Orientation

The Creek Indians, according to legend, first brewed the product of one of Atlanta's oldest business establishments, the SSS Company, maker of the patent medicine SSS. This medicine has been made for more than 130 years. It is said that it was first used by the Indians as an aid to digestion. Charles Swift and Colonel H. J. Lamar formed a partnership to manufacture the medicine, and brought their business to Atlanta in 1873 because of the good railroad facilities.

The ingredients of SSS, roots and herbs, remain basically the same as in stagecoach days. The descendants of the Swift and Lamar families still control the company.[9]

Owner-Operation

Beck and Gregg Wholesale Hardware Company began January 1, 1866 as Tommey, Stewart, and Orr with $2,500 capital. Lewis H. Beck was general utility boy and only employee. Later he became the first traveling salesman for the firm, actually one of the first traveling salesmen in the South. William A. Gregg was employed in 1869 as bookkeeper. In July, 1878, Tommey and Stewart retired,[10] sold their interest to Beck and Gregg, and the firm became known as "Beck and Gregg." By 1889 it had nineteen traveling representatives in Georgia, Florida, North Carolina, South Carolina, Alabama, and Tennessee. Annual sales were $1,095,000 in 1904, and they passed the $2,000,000 mark by 1917.

A salient policy of the company was that all the stock belong to a few selected employees at the top of the organization, and retiring members sold their stock to acitve members. Without exception the officers, department heads, and other responsible officials of the company have grown up in the business. Slogans of the company are "friendly business service," "fair and considerate dealing," "a responsibility for the success of those we serve."[11]

Community Spirit

The King Hardware Company, founded in 1882, is a retail hardware firm of long standing. The concern prided itself on giving a full dollar's value for each dollar spent. Strict honesty was a foremost policy. Buying in large quantities was an advantage, and the firm kept an ample stock of high quality, and an endless variety of all kinds of hardware. The cooperative interest in community activities helped to win this firm the confidence of the community. It also took pride in systematic organization and in the *esprit de corps* among its employees.[12]

Innovations

The J. P. Stevens Engraving Company was founded in 1874 as a watch company. It was reputed to have been the only watch manufacturing company ever established in the South. Stevens retired from the watch and jewelry business in 1899, confining himself to his engraving company. He was the inventor of several devices related to engraving.[13]

Service

The John M. Smith Company set up a carriage shop in 1870, which by 1880 was called "the largest carriage factory in the state." It made a special feature of the best possible service in the carriage line.

In 1906 this company became agent for the Reo automobile; in 1912, for the Pierce Arrow, Chalmers, and Hupmobile; and after 1918, for contemporary automobile lines.

A dramatic highlight in the transportation field occurred February 19, 1913, when the company burned as kindling wood twenty-five phaetons, victorias, and sulkies once worth $30,000.[14]

Mass Production

Two outstanding textile mills are among the seventy-five year firms. The Exposition Cotton Mills bought the buildings and machinery of the International Cotton Exposition in 1882. By 1954 the mills were turning out 12,000,000 miles of yarn per month, and were weaving 1,000 miles of cloth per month. This production has been sold exclusively by J. P. Stevens and Company, New York.[15] The company was recently bought by J. P. Stevens.

The other cotton firm, Fulton Bag and Cotton Mills, was established in 1870.

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8. *Atlanta Constitution,* April 24, 1933.
9. Garrett, *op. cit.,* p. 896.
10. Orr had quit to teach at Emory College.
11. *The First Seventy-Five Years, 1866-1941, Beck and Gregg Hardware Company,* pp. 2-14.
12. R. B. McBride and R. S. McDonald, *Atlanta of Today* (Atlanta, Georgia, 1897), p. 30.
13. W. B. Stephens, "J. P. Stevens, His Watch Company and Inventions," Reprint from *Bulletin of the National Association of Watch and Clock Collectors,* pp. 1-15; *Atlanta Constitution,* April 24, 1933; *Atlanta Telephone Directory,* June, 1957, p. 475; *Manufacturing and Mercantile Resources of Atlanta, 1883,* p. 287.
14. *Proof, op. cit.,* No. 5 (March, 1928), p. 2; Garrett, *op. cit.,* II, 614.
15. *The Exposition Cotton Mills Company, Seventieth Anniversary, 1882-1952; Atlanta, Georgia, City Directory, 1883,* VII, 95; Garrett, *op. cit.,* II, 41.

ATLANTA FIRMS THAT LIVED FROM 1883 TO 1958

Date Founded	Name of Firm
	Publications
1868	The Atlanta Constitution
1878	The Baptist Christian Index[1]
1883	The Atlanta Journal
	Manufacturing and Processing Concerns
1848	S. P. Richards Paper Company (opened in Macon, moved to Atlanta 1863)[2]
1866	Furman Fertilizer Works
1867	Atlantic Brewery[3] (owned by Atlantic Company)
1867	Atlanta Casket Company
1868	Atlanta Paper Company
1868	Atlanta Rubber Stamp and Stencil Works
1868	Norman C. Harper, Rubber Stamps
1870	Fulton Bag and Cotton Mills[4] (originally Elsas, May and Company)
1873	SSS Patent Medicine Company
1874	J. P. Stevens Engraving Company
1879	F. J. Cooledge Paint Company (now Cosco Stores)
1881	Fain Grain Company
1881	J. J. Finnigan Company boilermakers
1882	Exposition Cotton Mills

Date Founded	Name of Firm
	Stores
1866	Beck and Gregg Hardware Company
1867	John B. Daniel, wholesale drugs
1867	Rich's, Inc. (originally M. Rich and Company, department store)
1872	Regenstein's (department store)
1875	Rhodes Furniture Stores
1879	Muse's (department store)[5]
1882	King Hardware Company
1882	John Miller's Book Store[6]
	Miscellaneous
1855	Atlanta Gas Light Company[7]
1865	Adair Realty Company[8]
1865	First National Bank (originally Atlanta National Bank)
1868	Southern Business University (originally B. F. Moore Business University)
1870	A. K. Hawkes Company, opticians
1870	John Smith Company, carriages and automobiles
1876	DuBose-Egleston Insurance Company (originally the Perdue and Egleston Insurance Company)
1880	H. M. Patterson Funeral Home[9] (originally Patterson and Bowden)
1870	Kimball House[10] (now demolished)

Note: If this list fails to include any firm that was founded in 1883 or before, possibly because of a change of name or because the facts are contained in private records, the author would like to hear from those with more complete information.

1. E. Y. Clarke, *Illustrated History of Atlanta, 1878,* p. 105; the *Guide to Atlanta, 1878-1879,* p. 17.
2. *Southern Stationer,* XIX, No 10 (October 15, 1948), 15-20, 50; *Guide to Atlanta, 1889,* p. 4; *Atlanta Centennial Year Book, 1837-1937,* p. 159.
3. F. Garrett, *Atlanta and Environs* (3 vols.; New York, 1954), I, 763.
4. *Atlanta Constitution,* April 24, 1933; *Proof,* Vol. 2, No. 7 (July, 1928), p. 3; *Manufacturing and Mercantile Resources of Atlanta, Georgia, 1883,* p. 288.
5. Muse's, *It's Seventy-five Years Later, 1879-1954.*
6. "Miller's of Atlanta Celebrates Its Seventy-Fifth-Year of Service," *Southern Stationer and Office Outfitter,* XXVIII, No. 7 (July, 1957), 13-14, 48, 50; *City of Atlanta,* 1892-93, p. 134.
7. *The Guide to Atlanta, 1878-1879,* p. 7; *Atlanta Constitution,* April 24, 1933; Atlanta Gas Light Company, *Blue Flame News,* Centennial Issue, February, 1956, pp. 8-9.
8. *The Guide to Atlanta, 1878-1879,* p. 5; *Sketches of Atlanta, Georgia* (Atlanta Historical Society, 1927), p. 51.
9. *Atlanta, Georgia, City Directory, 1883,* Vol. VII, p. A.
10. *The Guide to Atlanta, 1878-1879,* p. 42.

the MARKETING CENTER

Donald F. Mulvihill

Groping for a Marketing Theory

For years marketing leaders have been concerned with the development of a "marketing theory," or perhaps we should say "theories." Has a point in our discipline been reached at which we are ready to combine various theories into an integrated one and do away with the rather piece-meal pattern that has been followed in the past? Certainly, the descriptive and analytical work in studying and teaching marketing would be enhanced by theory formulation.

At any rate, it seems wise at this stage in our search for a concise marketing theory to review what has been done along this line, the relevant literature, and the current thinking of marketing leaders, as well as to survey what is yet to be done. This article is a brief summary of these points.

The Meaning and Scope of "Theory"

What is meant by "theory"? The word is used loosely by marketing people as well as by others. The following definitions were set up in tabular form in a paper given by Schuyler Otteson at Indiana University during the academic year 1951-1952.

> A hypothesis is merely a tentative solution which has not been verified and is not accepted. A theory is a generalization that has been verified at least in part and is accepted by some but not all students in the field. A principle has greater verification than a theory and is generally accepted but with the understanding that there may be some exceptions. A law has been appropriately referred to by Dr. T. N. Beckman of Ohio State University as "a principle with whiskers." In other words, in terms of our present understanding, it has been fully verified, is universally accepted, and has no exceptions.

In line with this concept, one might wonder why there is so much interest in marketing theory. Some people may be intrigued with the word itself, as they are intrigued with the word "science" because they believe that it sounds sophisticated. Others may think that it represents advanced learning. This may very well be true. New hypotheses, and upon some verification, new theories, often result from a new or further synthesis of existing knowledge. Perhaps, then, there should be as great an interest in formulating new hypotheses in the field of marketing as there is in developing new theory.[1]

Distinction Between Hypothesis, Theory Principle, and Law

Hypothesis	Generalization	Not verified	Not accepted
Theory	Generalization	Partially verified	Partially accepted
Principle	Generalization	Verified	Generally accepted but understood to have some exceptions
Law	Generalization	Completely verified	Universally accepted and has no exceptions

Theories are generalizations which are partially verified and accepted. It is possible that marketing theories have not reached the "principles" stage, though certain principles enunciated by Professor P. D. Converse (quoted later in this paper) probably are generally accepted. Certainly much remains to be done before "laws" can be stipulated.

Note: Dr. Mulvihill is professor of marketing, Department of Marketing, School of Commerce and Business Administration, University of Alabama.

Author's note: It is impossible to give precise credit to all who have authored the ideas given here or who have guided my thinking. It has been my good fortune to have studied with several and to have known others on whose concepts I draw. Many readers will recognize ideas from Alderson, Aspinwall, Cox, Converse, Dean, Duddy, and McGarry, to mention a few. In addition, it would be difficult also to sort out who suggested what first.

1. "Research and Science in Marketing," *Marketing: Current Problems and Theories*, Indiana Business Report No. 16, Indiana University, 1952, pp. 13-14.

Marketing Theory—Its Relation to Other Disciplines

In a number of articles on marketing theory a major point is raised: is marketing theory a part of economic theory; is it limited to economic theory; or are both marketing and economic theory a part of a larger theory which may be called, for want of a more definite term, "social theory"?

What should be the bases of marketing theory and to what confines should it be limited? Different approaches have been made as to the way in which marketing theory might be formulated. Below are mentioned some of these bases. Very few writers have attempted to coordinate the various theories into one general theory.

Based on Specialization of Function?

An article by George M. Umemura provides a good discussion of the classical school of economic thought and a theory of marketing based upon specialization of function.[2] This is the only attempt that could be found to utilize the functional approach and is worthy of more thought by those who have attempted to use other viewpoints.

Based on Market Realities?

Most marketing thinkers feel that marketing theory should be more in tune with the realities of the market than economic theory may be.[3] That this view might not be held by all, particularly outside this country, is indicated by this quotation from personal correspondence with Richard Clewett of Northwestern regarding marketing literature in Germany:

> Dalke tells me that marketing literature in the German language would probably be of little value to us, even if translated into English. He, of course, refers to the more scholarly literature rather than trade publications and gives as the reason for his comment the fact that German academicians in the field are concerned with building theories not necessarily related to practice and that in expressing their ideas they develop their own technical language which means very little to the reader unless he has a special knowledge of the professor's vocabulary.

Confined to Economic Theory?

Whether marketing theory should be confined to economic theory is often debated. McGarry, in an unpublished extension of his remarks at the Marketing Theory Seminar at Dartmouth in 1953, sums up the case for a broader view:

> There are some among our group who think it is presumptuous of us to go outside the bounds of economic theory for our concepts. With these I cannot agree. The bounds of economic theory are not coterminous with those of marketing. The economist is preoccupied with the study of the nature and causes of the wealth of nations, the control of the economy, and price mechanisms generally. Important as the studies of these aspects of marketing are they do not cover its entire field, nor have they aided greatly in solving some of the most pressing problems in the field. There is an essential unity in marketing itself which demands that it be considered realistically with the use of every known tool of analysis, whether that tool be found in economics, sociology, anthropology, psychology, history or any other field.

A Synthesis of the Various Disciplines?

Perhaps we might agree that marketing theory might be obtained by a synthesis of the theories of various disciplines applied to the processes involved in the creation of the complex of time, place, and ownership utilities. The work by Kelly and Lazar[4] has stimulated this idea of drawing upon various disciplines, but considerable specification still remains to be done as to the theories within the other social science areas which are directly applicable to marketing.

Recent Works in the Area of Marketing Theory

Many of the books of readings in marketing provide a handy place to find the thoughts of marketing scholars and others who have tried to come to some definite statements regarding theory. Of course, the book bearing the word in its title, *Theory in Marketing*,[5] when published in 1950, provoked considerable interest and attention, but many of the chapters presented separate ideas or theories which would be difficult to synthesize so as to give a basis for explaining anything but a small portion of the marketing complex. The chapters by Grether ("A Theoretical Approach to the Analysis of Marketing") and Vaile ("Economic Theory and Marketing") discuss briefly the status of marketing theory at that time.

A more recent book of readings, *Managerial Marketing: Perspectives and Viewpoints*,[6] provides in its last section some of the more recent contributions to theory development. For instance, an original paper by Leo Aspinwall on "The Characteristics of Goods and Parallel Systems Theories" utilizes these characteristics to illustrate the development of theory. There is also a paper by W. J. Baumol of Princeton, "On the Role of Marketing Theory," in which he discusses the meaning of theory and the characteristics of a "good" theory, which are:

> 1. The model should be a sufficiently simple version of the facts to permit systematic manipulation and analysis.

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2. "The Classical School and a Theory of Marketing," *ibid.*, pp. 19-28.
3. See Wroe Alderson's first chapter, "Theory in Science and Practice," and others in *Marketing Behavior and Executive Action* (Homewood, Illinois: Richard D. Irwin, Inc., 1957), pp. 3-33.
4. For example, see *Interdisciplinary Contributions to Marketing Management*, Marketing and Transportation Paper No. 5 (East Lansing, Mich.: Bureau of Business and Economic Research, Michigan State University, 1959).
5. Cox and Alderson (eds.) (Chicago: Richard D. Irwin, Inc., 1950).
6. Kelly and Lazar (Homewood, Illinois: Richard D. Irwin, Inc., 1958).

2. On the other hand, the model must be a sufficiently close approximation to the relevant facts to be usable.

3. Its conclusions should be relatively insensitive to changes in its assumptions.[7]

Apparently, at present, hypotheses are still being formed and theories are being only approximated except in narrow areas of marketing. In order to be of most service in studying our complex system, a framework of interwoven theories might be better than isolated statements.

McGarry, also in *Managerial Marketing,* presents this view:

> There is disagreement among marketing men as to whether we should attempt to find a broad integrating concept for marketing, or attack the various problems of marketing in more or less piece-meal fashion. My own feeling is that the growth of literature on the subject on a piece-meal basis has reached the point where integrating concepts are necessary to bring the pieces together and give perspective to the overall picture. Whether the theory (adjustment) I propose does this is, of course, open to question and will continue to be so long as people think about it. But no one should think for a minute that this precludes the continuous development of segmental studies, or those with a different approach. However, I seriously question the attitude of some, that with the continuous work on small segments of the field, an integrating theory will grow up like Topsy to weld them together.

At least one attempt at a complete thesis has been made by Father William McInnes,[8] which he reported at the theory seminar at Colorado in 1955. Although perhaps inconclusive, such an attempt must be recognized for, if nothing else, its boldness of approach.

Such attempts at synthesis should provide a groundwork for future examination that might lead either to the establishment of principles, or even laws, or to new hypotheses that may provide theories closer to the realities of the market place.

Often theory discussions are not clearly discerned unless one is on the alert. Not always are they so labeled. A book such as Joel Dean's *Managerial Economics*[9] is obviously full of solid theoretical worth. Although written to "show how economic analysis can be used in formulating business policies," all the chapter headings but the last indicate that they deal with marketing policies (profits, competition, multiple products, demand analysis, cost, advertising, basic price, product-line pricing, and price differentials). As Dean states in his preface, "For certain problems it was necessary to develop some extensions and reformulation of economic theory."[10]

Chapters in textbooks of a general nature may also contain this type of discussion;[11] and, disguised somewhat but still recognizable, theory presentations appear in trade publications and business histories. All are grist for the mill of the serious student of marketing.

What is Being Done to Encourage the Growth of Marketing Theory

The Marketing Theory Seminar, under the leadership of Alderson, Aspinwall, and McGarry, has met in the late summer since 1951, alternately at the University of Colorado and the University of Vermont (with one session at Dartmouth). A general theme has been developed each year around which informal discussions have revolved. Attending are marketing executives and teachers from outside disciplines as well as those in marketing. Although few formal papers or proceedings have resulted, the provocative sessions have provided stimulation to thinking about diverse problems, later resulting in papers at the American Marketing Association, annual and regional meetings, articles in learned journals, and even decisions on courses of action in marketing situations. The influence on "theory production" has undoubtedly been great.

Typical of the subjects that have been discussed at these seminars are: decision theory (C. West Churchman), market adjustment (McGarry), product differentiation and market segmentation, the city as a marketing institution (Cox), motivation research (Lockley), propaganda function (McGarry), the concept of the image in marketing (Boulding), and communication theory (Halpern).

Another stimulant to this area has been the Marketing Symposia held every two years at the University of Illinois and often referred to as the "Converse Awards" program since contributors to marketing thought are honored by the presentation of the Paul D. Converse Award at the closing banquet. These programs, too, have a central theme such as consumer behavior and motivation, changing structure and strategies, or productivity.

The Conference of Marketing Teachers from Far Western States held at the University of California, Berkeley, in September 1958, provided a sounding board for many ideas related to the development of theory. One of its purposes was "to develop further existing frontiers of theoretical constructs applicable to marketing and explore their relationships to other disciplines."[12] Of particular interest along this line are the papers "The Analytical Framework for Marketing" (Alderson),[13] "Mathematical Models and Marketing

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7. *Ibid.*, p. 423.
8. "A General Theory of Marketing," unpublished doctoral dissertation, New York University, 1954.
9. New York: Prentice-Hall, Inc., 1951.
10. *Ibid.*, p. vii.

11. For example, the chapter on the history of wholesaling in the new edition by Beckman, Engle, and Buzzell, *Wholesaling* (3rd. ed., New York: Ronald Press Co., 1959), pp. 61-86.
12 Duncan (ed.), *Proceedings, Conference of Marketing Teachers from Far Western States* (Berkeley: University of California, 1958), p. iii.
13. *Ibid.*, pp. 15-28.

Theory" (Kuehn),[14] and "Theories of Marketing Structure and Channels" (Balderson).[15]

Some seminars being held under the auspices of various foundations and schools give rise to the discussion and utilization of theory but not the formulation of it. Gatherings of marketers and workers in other disciplines at the faculty seminars in New Developments in Business Administration such as that held at the University of California at Berkeley in the summer of 1960 and those held under the auspices of the University of Chicago are typical of these meetings.

In addition to the meetings named above, conferences such as the Southern Economic Association, the American Marketing Association (both annual and regional), and university-sponsored groups provide forums for the discussion and interchange of ideas necessary for the development of theory. The opportunity to publish theory ideas is provided by a number of journals.

What Needs to be Done?

Present marketing theory, then, consists of a number of disjointed, isolated theories. The first step toward developing a theory would appear to be evaluating and integrating the present thinking on the subject. Such a procedure might produce several systems or even one general marketing theory which would aid in understanding this complex area. A problem arises as to who would do the job. No doubt it would take more time than most teachers and research people in marketing can afford. The obvious suggestion would be that of obtaining the backing of existing agencies for such projects or the establishment of a foundation for such purpose. It may be that the American Marketing Association will eventually provide the starting point for such an organization.

In an evaluation and consolidation of existing theory towards an eventual marketing theory, a number of considerations are in order, a few of which are mentioned below.

A Generous Exchange of Information

There is a great need for more discussion and writing in the area of marketing theory. Without communication and criticism, little progress will be made. Meetings such as those mentioned earlier, as well as other groups, and possibly a regional conference of short duration yearly or bi-yearly present excellent opportunity for the exchange of ideas on the subject.

Little encouragement seems to be given to graduate students of marketing to write in the area of theory. At the Master's level, the time is too limited, and today many such degrees do not carry any thesis requirement. Stimulating students to discuss, and maybe even evolve, isolated marketing theories and theory systems may cause some of us not only to search more diligently in this area but to encourage doctoral and post-doctoral studies of this nature.

Recognition of all Social Science Disciplines

More teachers of marketing must accept the idea that we are not apart from economics, sociology, psychology, and the other social studies; and, in searching for our own theory, these areas cannot be ignored. As the subject fields are viewed, the whole range of social sciences is before us. No matter where we start, we will find ourselves moving back and forth between disciplines in order to understand our own.

The Consideration of Consumption as a Theory

In a somewhat less ambitious manner, a specific suggestion might be offered. There is one area in which little has been done and which should challenge our best endeavors. Although it is an equal member of the economic hierarchy, along with production, exchange, and distribution, *consumption* has had the least probing and searching scrutiny. Few hypotheses have been tested and even fewer theories evolved in this area. Surely, as marketing men we need to know something of consumption, not in terms of "buymanship" or "consumer education," but as theory.

Few have made attempts in this field. Hazel Kirk led the way in her book *A Theory of Consumption,*[16] and Ruby Turner Norris' *The Theory of Consumer's Demand*[17] followed some time later. With these and other contributions in the field, progress may be made to tie together the rather clumsy framework we now employ.

The Search for Marketing Principles

As stated earlier, whether marketing people are ready to designate an over-all theory, and whether principles can be derived before such a theory is accepted, is debatable. Principles submitted by Professor P. D. Converse[18] represent the consolidation of a number of conditions relevant to marketing problems. Examples of these are quoted below:

(Concluded on page 12)

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14. *Ibid.*, pp. 45-59. One note of warning might be raised in regard to mathematical models. They are not theories in themselves nor are they statements of theory. They are handy symbols or substitutes for theory statements. Subject to mathematical manipulation, linear or other equations may become valuable tools of analysis, but they are apt to be taken as the substance of theory, rather than the shadow.
15. *Ibid.*, pp. 135-145.

16. Boston: Houghton Mifflin Company, 1923.
17. New Haven: Yale University Press, 1941.
18. Distributed by Professor Converse at the Marketing Theory Seminar, 1955.

SOUTHEASTERN CORNER

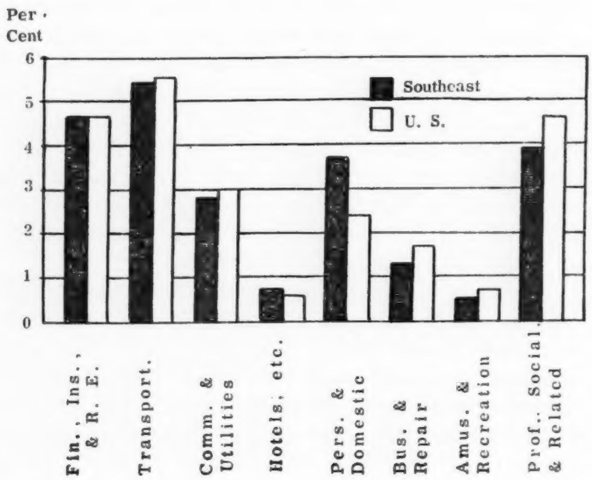
Contribution of Services to Salary and Wage Income

The purpose of the present article is to examine some aspects of the relative importance of specific types of services as they contribute to salary and wage income in the Southeast and the nation. Also to be examined are the changes in relative importance of specific types of services during the postwar period.

On an aggregative basis, the services cited in the accompanying tables and charts contribute about equal proportions to total salaries and wages in the Southeast and nationally.

Figure I

Salaries and Wages Received for Selected Types of Services, Per Cent of Total Salaries and Wages, U. S. and Southeast, 1959



Source: Same as Table I.

Similarly, there is remarkable likeness of relative importance of specific types of services in the nation and in the southeastern states (Table I and Figure I). The major differences are: (1) personal and domestic services combined contribute a greater share to total salaries and wages in the Southeast than in the nation, (2) business and repair services are of greater importance nationally than in the Southeast, and (3) professional, social, and related services are also of greater importance nationally than in the Southeast. With respect to the second difference, census data for 1958 indicate that repair services are of somewhat greater importance in the Southeast and business services are of significantly greater importance nationally. The third group includes, among others, private medical services and hospitals, legal services, private educational institutions, private employment agencies, and engineering and architectural services. It does not include public education, public hospitals and health services, or other public services of a professional or social nature.

Table I

Salaries and Wages Received for Selected Types of Service, Per Cent of Total Salaries and Wages, U. S. and Eight Southeastern States, 1959

Type of Service	U. S.	S. E.	Ala.	Fla.	Ga.	La.	Miss.	N. C.	S. C.	Tenn.
Finance, Insurance, & Real Estate	4.6	4.6	4.3	6.0	5.1	4.1	3.8	3.6	3.9	4.4
Transportation	5.5	5.4	4.7	5.8	5.9	7.3	4.4	4.8	3.0	5.6
Communications & Utilities	3.0	2.8	3.0	2.8	2.9	3.7	3.5	2.3	2.2	2.2
Hotels, etc.	0.6	0.7	0.3	1.8	0.4	0.6	0.5	0.4	0.3	0.4
Personal & Domestic	2.4	3.7	3.5	4.5	3.6	3.5	4.2	3.5	3.5	3.3
Business & Repair	1.7	1.3	1.8	1.8	1.2	1.4	0.9	0.7	1.0	1.5
Amusements & Recreation	0.7	0.5	0.3	0.9	0.4	0.5	0.3	0.3	0.2	0.4
Professional, Social & Related	4.6	3.9	3.2	4.7	3.1	4.6	3.8	3.6	3.2	4.1

Source: Computed from *Survey of Current Business* (August, 1960), and *Personal Income by States Since 1929*, Supplement to the *Survey of Current Business* (1956).

Table II

Postwar Change in Share of Total Salaries and Wages in Selected Types of Services, U. S. and Eight Southeastern States

(Per Cent)

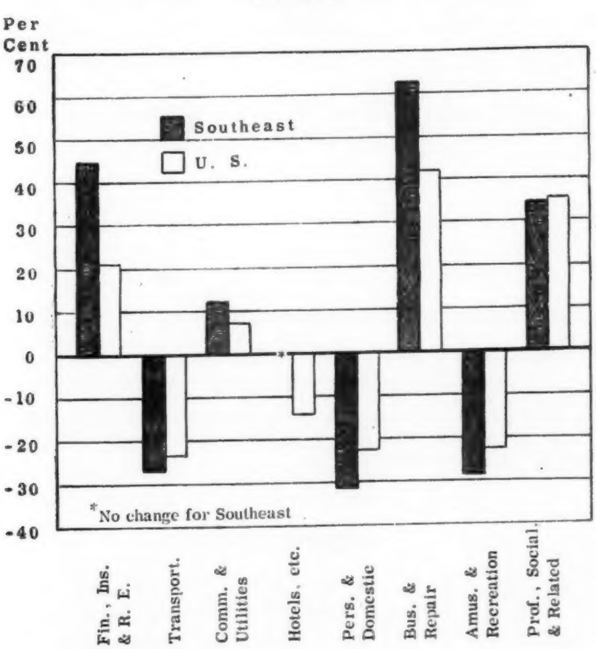
Type of Service	U. S.	S. E.	Ala.	Fla.	Ga.	La.	Miss.	N. C.	S. C.	Tenn.
Finance, Insurance, & Real Estate	21.1	43.8	43.3	39.5	37.8	36.7	58.3	44.0	77.3	25.7
Transportation	-23.6	-27.0	-44.7	-30.2	-24.4	-24.0	-35.3	-7.7	-28.6	-31.7
Communications & Utilities	7.1	12.0	25.0	3.7	-3.3	0.0	16.7	15.0	15.8	15.8
Hotels, etc.	-14.3	0.0	0.0	-14.3	-20.0	0.0	-16.7	0.0	0.0	-20.0
Personal & Domestic	-22.6	-31.5	-34.0	-33.8	-36.8	-23.9	-33.3	-27.1	-34.0	-28.3
Business & Repair	41.7	62.5	200.0	63.6	33.3	55.6	50.0	16.7	150.0	87.5
Amusements & Recreation	-22.2	-28.6	-25.0	-35.7	-33.3	-44.4	-25.0	-40.0	-50.0	-20.0
Professional, Social & Related	35.3	34.5	23.1	38.2	24.0	31.4	11.8	28.6	60.0	24.2

Note: Based on change from 1948 to 1959.
Source: See source note, Table I.

The pattern described by Figure I is somewhat similar, though not quite the same, for the individual southeastern states. The major exception is Florida, where services in general are of considerably more importance than in other states. There, employment income from finance, insurance, and real estate; transportation (except for Louisiana); hotels, motels, and other lodging places; and personal and domestic services in particular are of significantly greater importance than in the other southern states (Table I). These, of course, are linked closely to tourism. Transportation is of greater importance in Louisiana than in any other state.

Figure II

Postwar Change in Share of Total Salaries and Wages in Selected Types of Services, U. S. and Southeast (Per Cent)



Source: Same as Table I.

Shifts in Service Salaries and Wages

Salaries and wages in practically all types of services (as well as total salaries and wages) have grown more rapidly in the Southeast since 1948 than in the nation. There are two exceptions, transportation and (surprisingly) amusements-recreation.

Table III

Postwar Growth Rates of Major Groups of Real Consumption Expenditures in the United States

Type of Expenditure	Average Annual Rate of Growth	Relative Importance in 1960
	%	%
Total Goods and Services	3.4	100.0
Durable Goods	4.1	13.5
Nondurable Goods	2.7	46.5
Services	4.2	40.0
Household operations	5.9	5.8
Housing	4.7	13.0
Personal Service	.7	1.7
Recreation	.7	1.9
Transportation	1.4	3.2
Other Services	5.0	14.4

Note: Rates of growth are based on linear logarithmic trends using data in 1954 dollars for the period 1948-1960.
Source: *Survey of Current Business* (January 1961), p. 19.

Turning to shifts in relative importance of specific types of services, it should first be noted that changes in importance of specific types of services have generally been in the same direction in the Southeast and the nation (Table II and Figure II). While the share of salaries and wages earned in services in general has remained constant both nationally and in the Southeast, specific types of services have changed widely. Those types which have gained significantly have been finance, insurance, and real estate; communications and utilities; miscellaneous business and repair services; and professional, social, and related services. Business and repair services have shown the greatest relative gains, both nationally and in the Southeast. The major part of this

(Continued on page 24)

May 1961

ATLANTA AREA ECONOMIC INDICATORS

	May 1961	April 1961	% Change	May 1960	% Change	% Change 5 months '61 over 5 months '60
EMPLOYMENT						
Job Insurance (Unemployment) Payments	$ 792,732	$ 737,864	+7.4	$381,764	+107.6	+102.5
Job Insurance Claimants	10,555	11,075	—4.7	6,710	+57.3	+61.5*
Total Non-Ag Employment	363,900	362,200	+0.5	369,050	—1.4	—1.4*
Manufacturing Employment	81,550	80,350	+1.5	86,450	—5.7	—7.2*
Average Weekly Earnings, Factory Workers	$83.39	$81.56r	+2.2	$82.19	+1.5	+2.5*
Average Weekly Hours, Factory Workers	39.9	39.4r	+1.3	39.9		+1.6*
Index of Help Wanted Ads (Seasonally adjusted, 1947-49 Avg.=100)	119.7	120.4	—0.6	166.3	—28.0	—20.3
CONSTRUCTION						
Number of Building Permits§	1,122	912	+23.0	989	+13.4	+20.0
Value of Building Permits§	$7,436,460	$6,448,233	+15.3	$11,941,621	—37.7	—14.9
Employees	22,400	22,100r	+1.4	23,100	—3.0	+3.7*
FINANCIAL†						
Bank Debits (Millions)	$2,250.3	$1,965.8	+14.5	$2,103.7	+7.0	+2.6
Bank Deposits (Millions)	$1,376.9	$1,372.9r	+0.3	$1,248.3	+10.3	+9.0*
OTHERS						
Department Store Sales Index	169	174	—2.8	171	—1.2	—3.5¶
Retail Food Price Index	116.2	117.0	—0.7	116.8	—0.5	+1.6**
Number of Telephones in Service	388,470	387,151	+0.3	370,709	+4.8	+5.3**

r—Revised *Average month **End of period ¶—Based on retail dollar amounts
§City of Atlanta only †Data from members of the Federal Reserve System only

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads; Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

ATLANTA BUSINESS ACTIVITY

For the second straight month, NONAGRICULTURAL EMPLOYMENT moved upward in May, reaching its highest level of the year (363,900 workers). This is only about one per cent under the figure for May a year ago, which testifies to the degree of recovery in Metropolitan Atlanta employment.

JOBS IN MANUFACTURING inched up in May, reaching their highest level in four months. The bulk of this gain came from the return of workers to one of the auto assembly plants after inventory adjustments in April and from more business in aircraft plants. Together these totaled 1,000 new jobs in the transportation category for May.

Although the employment picture in Atlanta was generally bright in May, the UNEMPLOYMENT RATE did not improve, remaining at the April level of 4.9 per cent. This is due, of course, to an increase in the labor force over the month. In turn, JOB INSURANCE PAYMENTS shot up to $792,732, twice the amount paid a year ago. The first five months total payments in 1961 were also double those of the same period of last year.

AVERAGE WEEKLY EARNINGS of factory workers in Atlanta reached the very healthy level of $83.39 in May. This is one of the highest figures on record (the others: September 1960, $83.98 and October 1960, $84.44). On the other hand, the RETAIL FOOD PRICE INDEX dropped nearly one per cent from April and one-half of one per cent from May a year ago.

The INDEX OF HELP WANTED ADS is still trending downward. Although May saw the highest number of ads in seven months, when seasonally adjusted the figure is 28 per cent under a year ago.

The City of Atlanta Inspector of Buildings' Office issued 1,122 BUILDING PERMITS of all types in May, *the largest number ever issued in a single month.* Closer examination, however, reveals the figure to be less glamorous. Only 141 of these were for one family dwellings. This compares rather unfavorably with, say, May of 1960, at which time there were 301 of this type issued. Actually, most of the permits issued last May were for fire escapes, elevators, signs, residential garages, and swimming pools, or simply alterations or demolitions. Nevertheless, good signs are to be seen in construction. During the first five months of 1961 nearly four per cent more people were employed in contract construction than during the same period last year.

BANK DEBITS jumped a whopping 15 per cent in May. This follows on the heels of a 12 per cent dip in April, which is explained largely by the fact that April had only 20 trading days while March and May both had 23.

As a final note, Southern Bell Telephone reported 388,470 TELEPHONES IN SERVICE during May, an all-time high for Atlanta.

John R. O'Toole

THE DIVISION OF LABOR
(Continued from page 7)

This formulation would call for the opposite debt management policy from that recommended by those who would like to use debt management as an additional instrument of economic stabilization. But it would call for a policy rather similar to that which has been followed in the past six or seven years.

CONCLUSION

The limited conclusions that can be derived from the kinds of considerations advanced here are these:

1. Debt management should not be involved in the stabilization and growth objectives but should be designed to hold down the interest burden on the Federal debt as far as that is possible within the confines of a stabilizing monetary and budget policy.

2. The long-run division of labor between monetary and budget policy, which is roughly represented by the size of the budget surplus we aim to achieve in "normal" times, should be governed by the desirable rate of economic growth—which is not necessarily "more."

3. The short-run division of labor between monetary and budget policy, the combination in which they are used for counter-cyclical stabilization, should be governed by flexibility considerations, i.e., by the attempt to minimize errors resulting from uncertain forecasts and from lags of response.

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of Business Administration
33 Gilmer St., S. E.
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RETURN POSTAGE GUARANTEED

SECOND-CLASS POSTAGE PAID
AT ATLANTA, GEORGIA

SOUTHEASTERN CORNER
(Continued from page 21)

gain has been in the business service component and little in repair services.

Services which have declined in importance, relative not only to total services but also to total salaries and wages from all sources, have been (1) transportation, (2) hotels and other lodging places, (3) personal and domestic services, and (4) amusements-recreation. Hotels and other lodging places declined in importance nationally and in four of the eight southeastern states, though not in the Southeast taken as a whole. The other three declined both nationally and in the Southeast. The magnitudes of change, of course, have varied widely from state to state, but the direction of change has been the same in most cases (Table II).

In general then, with respect to services (and with a few exceptions) the Southeast is very much like the nation as a whole. This was found (in an earlier article) to be true of retail trade as well.

Relation to Shifts in Consumer Expenditures

It was shown in earlier articles that consumer expenditures nationally have shifted relatively during the postwar period from goods in general to services in general. The types of services for which gains in consumer expenditures have been relatively greatest have been (1) household operations (which include utilities, domestic services, repairs on household equipment, fire and theft insurance, postage, moving and storage, etc.), (2) "other services" (which include medical and dental care, health and life insurance, legal services, education, interest on personal debt, etc.), and (3) housing (which includes rent, rental value of owner-occupied housing, institutional housing, hotels and other transient lodging places, etc.), in that order (Table III).

The types of services for which consumer expenditures have increased relatively least (and in general less than goods) have been personal services, recreation services, and transportation (including automobile repairs and insurance, tolls, and public transportation).

It is likely that the changes in consumer expenditures in the Southeast have (just as have changes in salaries and wages) been very much like the changes which have occurred nationally. In general, the economy of the Southeast is becoming more and more like that of the rest of the nation.

Roger L. Burford

RESEARCH STUDY AVAILABLE

RESEARCH PAPER NUMBER 20

Man-Made Fibers: A Growth Industry For the Diversifying South
. . . JACK BLICKSILVER

60 + ii pp., 8½ x 11 in.
(No charge for single copies)

Two broad hypotheses are examined in this study of the man-made fiber industry: (1) that man-made fiber production, having experienced a rapid rate of growth during the last fifty years in this country, is a highly desirable industry for the region in which it locates; and (2) that the industry enjoys a comparative advantage in the South.

Dr. Blicksilver concludes from his study that the textile South possesses the market, materials, and labor to attract the bulk of the facilities for the commercial production of man-made fibers, a dynamic industry generally characterized by stability and high rates of return.

Dr. Blicksilver is associate professor of economic history, School of Business Administration, Georgia State College of Business Administration.